

THE WHITE HOUSE

WASHINGTON

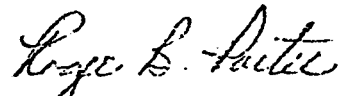
September 24, 1981

MEMORANDUM FOR THE SECRETARY OF STATE  
THE SECRETARY OF THE TREASURY  
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET  
THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS  
THE ASSISTANT TO THE PRESIDENT FOR NATIONAL  
SECURITY AFFAIRS  
THE ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: The Cabinet Council on Economic Affairs Working  
Group on LDC Financial Problems

A memorandum establishing a Cabinet Council on Economic Affairs Working Group on LDC Financial Problems is attached. It is expected that departmental and agency representatives to the working group will be at the Assistant Secretary level or above.

I would appreciate very much you communicating to my office the name of the individual you wish to represent you on the working group by close of business on Tuesday, September 29.

  
Roger B. Porter  
Executive Secretary

Attachment

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The foreign indebtedness of developing countries has grown rapidly during the past decade, rising from approximately \$90 billion in 1972 to \$416 billion at the end of 1980. This indebtedness includes \$154 billion in public debt owed foreign official creditors and \$262 billion in public debt owed foreign private creditors. Since the early 1970s the composition of new borrowing has shifted from official sources toward private sources. This shift has contributed to a significant hardening in the terms of new commitments by means of shorter maturities and higher interest rates.

These developments have occurred at a time when the terms of trade for the non-oil developing countries have deteriorated and demand for their exports has softened. Twelve developing countries (Bolivia, Central African Republic, Jamaica, Liberia, Madagascar, Nicaragua, Poland, Sierra Leone, Sudan, Togo, Turkey, and Zaire) are currently receiving debt relief from official and/or private creditors. Two or three additional countries will likely seek relief during the next year, and a number of others have accumulated substantial payment arrears.

As of 31 March 1981, U.S. Government exposure vis-a-vis developing countries was approximately \$45 billion in direct credits plus \$13 billion in contingent liabilities (i.e. government guarantees) on loans and investments extended by private lenders. Arrearages on direct credits including short-term credits and accounts receivable were \$1.0 billion. However, \$830 million of this amount related to extraordinary political arrearages including those of Vietnam, Cuba, China, and Iran, and Korean War Logistical Support debts. For all practical purposes the latter debts are uncollectible at this time. This leaves approximately \$170 million of arrears on direct creditors.

These arrearage figures understate the impact of the LDC debt-servicing difficulties because they do not include rescheduled payments. Treasury estimates that foregone debt receipts in FY 1982 due to debt

-2-

relief arrangements already concluded (e.g. Turkey, Poland, Pakistan, Zaire) and additional debt relief which has been requested or seems imminent (e.g. Liberia, Senegal) will approach \$920 million. (The \$1.0 billion in arrears mentioned above is separate from this total). Receipt shortfalls of this magnitude represent a significant drain on the budget.

The U.S. Government has not undertaken a broad review of the LDC financial problems for at least a decade. Yet, the subject has important implications for U.S. foreign policy objectives in specific countries, for U.S. efforts to strengthen the global economy, for the roles of the IBRD, the IMF and private banks, for the U.S. budget, and for the management of the various U.S. foreign credit programs.

The Chairman Pro Tempore of the Cabinet Council on Economic Affairs has approved establishing a Cabinet Council Working Group on LDC Financial Problems to assess current and prospective debt-servicing and other financial problems among the LDCs and the implications for U.S. policy. The working group will consist of representatives from the Departments of Treasury and State, the staff of the National Security Council, the Office of Management and Budget, the Council of Economic Advisers, and the Office of Policy Development. The group will seek advice and information from the Departments of Agriculture, Commerce, and Defense, the Agency for International Development, the Overseas Private Investment Corporation, the Export-Import Bank, and the Federal Reserve Board as appropriate. The Assistant Secretary of the Treasury for International Affairs and the Assistant Secretary of State for Economic and Business Affairs will co-chair the working group.

The working group's review should include, but not be limited to:

1. Identifying countries where U.S. exposure (official and private) is heavy and where the risks of payment interruptions in the next 12-18 months are significant;
2. Examining the impact of payment interruptions and debt relief on the budget, including congressional aspects of the problem;
3. Evaluating the impact of LDC debt difficulties on U.S. interests in promoting economic growth in politically-important countries, in assuring the growth and stability of the international financial system, and in fostering effective collaboration between the IBRD and the IMF, (including, specifically, the issue of the multilateral development banks' participation in debt relief operations);

4. Reviewing existing U.S. Government policies and procedures for minimizing delinquencies on foreign debt and for protecting U.S. financial interests in default situations including specific recommendations for dealing with "extraordinary political" arrearages; and
5. Formulating recommendations for improving policies and procedures of the U.S. Government relating to LDC debt for review by the Cabinet Council and the National Advisory Council on International Monetary and Financial Policies (NAC).

The working group chairman should work closely with the Executive Secretary of the Council in developing the sequence of issues the working group will consider and in scheduling presentations to Council meetings.

*Roger B. Porter*  
Roger B. Porter  
Executive Secretary